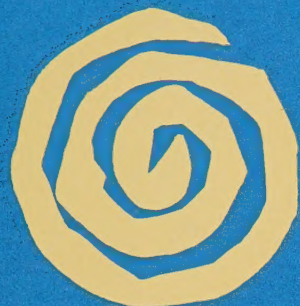


AR11

THE INTERNATIONAL HELIUM COMPANY LIMITED

Annual Report for the year ended April 30, 1966



John J.





SULPHUR — Chemical symbol: S

Sulphur is a non-metallic element which, in its natural state, appears as a yellow crystalline solid.

Long associated with the manufacture of gunpowder and matches, today sulphur is used predominantly to make sulphuric acid. The acid in turn finds its major applications as an ingredient in fertilizers and in the pickling of steel.

The current market for sulphur is particularly strong with all prospects pointing towards increasing demand. The most important factor influencing this demand is the growing world food problem and the resultant need for fertilizers.

In the past five years U.S. sulphur consumption rose 44% to 8.1 million long tons, but production did not keep pace during the same period, climbing only 25% to 8.3 million long tons of which 2.5 million tons were exported. A report in Chemical Week, a U.S. magazine, says that American sulphur inventories will be depleted by the end of the year.

Your company's Mexican affiliates are actively exploring to increase their export potential by increasing their proven reserves since, as a conservation measure, Mexico limits annual exports of sulphur to 10 per cent of proven reserves.

THE INTERNATIONAL HELIUM COMPANY LIMITED

ANNUAL MEETING

Quebec Room, Royal York Hotel, Toronto,
Monday, October 31, 1966, 10.00 a.m. Toronto Time

THE INTERNATIONAL HELIUM COMPANY LIMITED

Suite 1010, 11 King Street West, Toronto 1, Ontario

OFFICERS

LOUIS ERLICH, *President*

J. H. HAWKE, *Vice-President*

C. G. BRAGG, *Vice-President and Secretary-Treasurer*

G. D. PATTISON, *Assistant Secretary*

R. D. BELL, *Assistant Treasurer*

DIRECTORS

C. G. BRAGG, Oakville, Ontario

NOAH DIETRICH, Beverly Hills, California

LOUIS ERLICH, Beverly Hills, California

J. A. GAIRDNER, Oakville, Ontario

J. H. GAIRDNER, Thornhill, Ontario

J. S. GAIRDNER, Oakville, Ontario

J. H. HAWKE, Toronto, Ontario

J. D. PARK, Toronto, Ontario

ALBERT PARVIN, Beverly Hills, California

AUDITORS

TOUCHE, ROSS, BAILEY & SMART, Toronto, Ontario

TRANSFER AGENT AND REGISTRAR

MONTREAL TRUST COMPANY,

Toronto, Montreal, Winnipeg, Calgary and Vancouver

HEAD OFFICE

Suite 1010, 11 King Street West, Toronto 1, Ontario

THE INTERNATIONAL HELIUM COMPANY LIMITED

Report of the Directors

TO the Shareholders:

From communications issued by your Directors during the past few months you will have learned of the important developments which have taken place in your Company, and of the considerable progress made since the last annual meeting of the shareholders. Your Directors are pleased to report that The International Helium Company has emerged from these corporate and financial developments as a strong organization with diversified interests in Canada, Mexico, and the United States.

Control of the Company has passed into the hands of a Canadian group and the pertinent details concerning this change are contained in the notes to the financial statements for the year ending April 30, 1966, which form an integral part of this report.

HELIUM

The plans of your Company to place its helium properties into production are proceeding according to schedule and it is anticipated that the helium extraction plant will be completed by the end of 1967. The design work is under the direction of James K. LaFleur, an international authority on low temperature gas technology. Overall supervision of the project is under the direction of Resources Engineering of Canada Limited. Your Company has recently purchased a

plant site located approximately 4 miles from the Company's two helium wells. The plant has been designed for a capacity of 40 million cubic feet of Grade A helium annually. Your Company holds leases totalling 65,000 acres surrounding and adjacent to the proven structure, on which several other promising structures are located. Your management plans further drilling for additional reserves in the near future on these structures as recent sales surveys indicate the probable need for plant expansion within a relatively short period of time.

Nitrogen in gaseous and liquid form will be a by-product of the helium extraction, and contracts for the sale of nitrogen have already been offered to your Company.

Your Company has in the U.S. a controlling interest in Apache Oil & Helium Corp., which owns a 25% net profits interest in the Pinta Dome helium plant operations of Kerr-McGee Oil Industries. This interest has been the subject of considerable litigation over the past several years involving the gas price basis for Apache's share of profits. The Supreme Court of Arizona, in which State these properties are located, has recently finally set the price of the gas on a basis favourable to your Company, and your Directors believe that this matter will soon be finally resolved.

OIL & GAS OPERATIONS

The operations of the two wholly-owned subsidiaries of your Company, Nevada Oil & Helium Co., and International Helium Inc. of Texas, have been streamlined during the past year to make for more efficient operations. Non-profitable oil and gas leases have been disposed of and the values written down to provide a more realistic balance sheet for the Company, as well as to secure certain tax advantages. Your Company's share of production from all of its oil and gas properties in the U.S. and Canada during the past fiscal year amounted to \$509,089. Plans are now under way for an important expansion in this division of your Company's activities.

SULPHUR

Your Directors believe that the most important development in your Company's affairs has been the acquisition of valuable sulphur properties in Mexico and elsewhere. Your Company has acquired a 34% interest (maximum permitted to non-Mexican nationals) in two Mexican companies: Operadora Anahuac, S.A., which owns an extraction plant, vehicles, drilling equipment, and a reserve of approximately 5,000,000 tons of sulphur; and Azufres Anahuac, S.A., an exploration company formed to prospect in the lands set aside by the Mexican Government as national sulphur reserves. Operadora Anahuac, S.A. has a stockpile of 10,700 tons of sulphur, for which a sale has been arranged at a price exceeding U.S. \$50 per ton. Pre-production work at the site is proceeding with local labour under your Company's direction. Overhaul of drilling rigs and vehicles, road repair work and general preparation for plant construction and rehabilitation are all under way. Additionally, our other subsidiary, Azufres Anahuac, S.A., has employed Ifex Geotecnica, S.A. of Mexico City to carry on aerial photographic survey work on the Isthmus of Tehuantepec as part of an extensive programme to increase sulphur reserves. A substantial amount of work

also has been done on Socorro Island and all locations of interest there have been staked.

To further improve our position on the Isthmus, your Company has entered into negotiations with the Mexican Government and with other owners of sulphur reserves in the area, looking toward the unitization of all interests involved. If these negotiations are successful, your Company's position in the sulphur industry will be greatly enhanced.

OUTLOOK

Increased world consumption and short supplies are exerting an upward pressure on sulphur prices. In the past five years world consumption has risen 30%, reaching 23.5 million tons. Projections by the British Sulphur Corporation show a consumption of 35.4 million tons by 1975, a further increase of 51%. Surveys indicate a world-wide critical shortage of this material and in the opinion of most of the industry there seems to be no permanent relief in sight.

Consulting engineers have estimated operating costs on the Mexican properties, including mining and extraction, to be between U.S. \$12 and U.S. \$19 per ton depending on the availability of natural gas for fuel. The current selling prices are in excess of U.S. \$50 per ton with some sales being made as high as U.S. \$60 per ton F.O.B. ship at a Mexican port.

Your Company is also planning extensive diversification in Mexico and in that respect has optioned a promising copper prospect known as the Mescala Property. Studies are now under way under your Company's direction and drilling activities are scheduled to begin immediately. Other similar properties are now also being studied in Mexico.

As to the helium operations, we are now actively engaged in establishing world-wide

markets and announcements in this respect will be forthcoming in the near future.

To provide additional working capital for all of these activities, we have under negotiation the sale of a new \$2,000,000 debenture issue. Further information will be furnished you regarding this issue as soon as the terms are settled with the fiscal agent. Your Directors are convinced that this year 1966 marks a turning point in your Company's history — a year in which your Company's whole structure and outlook has been changed into one of major importance in industry.

Your Company's diversified interests and the growth program projected by your Directors have brought International Helium to a stage where changes are indicated in those of your Company's general by-laws which have be-

come outmoded. These changes will be submitted for your consideration and approval at the Company's annual meeting.

On behalf of the Board, I wish to thank you for your support during the past year, and we hope that we continue to share your confidence in the period ahead.

On behalf of the board,

Louis Erlich
"LOUIS ERLICH,"
President.



THE INTERNATIONAL HELIUM CORPORATION

AND ITS WHOLLY OWNED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

Expressed in Canadian Dollars

ASSETS	
Current	
Cash	\$ 231,685
Bank deposit receipt	175,000
Accounts receivable	131,160
Deposits	10,847
Prepaid expenses	12,828
Inventory of field supplies	17,096
Investments at written-down value	1
	<hr/> 578,617
Investment in Apache Oil and Helium Corporation, at cost (note 2)	
Common shares	\$1,000,000
Advances	10,818
	<hr/> 1,010,818
Advances to affiliated companies	58,377
Fixed, at cost	
Helium, oil and gas agreements and leases and interest therein	3,898,672
Mining claims	9,000
Well costs — helium	323,400
— oil and gas	603,684
Well equipment	351,764
Other equipment	26,779
	<hr/> 5,213,299
Less accumulated depletion and depreciation	687,084
	<hr/> 4,526,215
Deferred, at cost	
Development and other expenditures (note 1)	1,164,577
Discount on debentures, less amortization of \$7,900	127,525
Long-term loan costs, less amortization of \$23,057	249,925
	<hr/> 1,542,027
	<hr/> <u>\$7,716,054</u>

AUDITOR'S REPORT

The Shareholders,
The International Helium Company Limited.

We have examined the consolidated balance sheet of The International Helium Corporation and the related consolidated statements of deferred development and other expenditures, income and cash flows for the year ended on October 6, 1966. In our opinion, in The International Helium Corporation Limited, our examination included a general review of the accounting procedures and practices followed in the circumstances. With respect to the wholly owned subsidiary companies for which no separate audits were considered necessary in order to accept for purposes of consolidation the reports of management.

In our opinion the aforementioned financial statements present fairly the consolidated financial position and operations for the year ended on that date, in accordance with generally accepted accounting principles, except for the change in treatment of oil production referred to in note 1 to the financial statements.

Toronto, Ontario,
October 6, 1966.

HELIUM COMPANY LIMITED

SUBSIDIARY COMPANIES

SHEET AS AT APRIL 30, 1966

Canadian Dollars

LIABILITIES

Current

Accounts payable and accrued charges	\$ 210,989
Bank production loans, (secured), current portion (note 3)	255,000
	<u>465,989</u>

Long-term loans

Bank production loans (secured) (note 3)	1,003,197
6% sinking fund debentures due October 1, 1975 (note 4)	<u>1,280,000</u>
	2,283,197
	<u>2,749,186</u>

SHAREHOLDERS' EQUITY

Capital stock (note 5)

Authorized 10,000,000 shares without par value

Issued and fully paid

	Shares	
For assets	2,203,500½	\$2,061,619
For helium agreements and mining claims	3,097,309¾	3,788,946
For cash	<u>1,264,027½</u>	<u>1,578,668</u>
	6,564,837¾	7,429,233

Deficit	(2,590,365)
Contributed surplus (note 6)	<u>128,000</u>

4,966,868

On behalf of the Board,

“J. H. HAWKE”, Director.

“C. G. BRAGG”, Director.

The notes to the financial statements are an integral part thereof.

\$7,716,054

REPORT

Company Limited and its wholly owned subsidiary companies as at April 30, 1966, and the income and deficit for the year ended on that date. For the International Helium Company Limited, we have tested the accounting records and other supporting evidence as we considered necessary. As we are not the auditors, we have carried out such enquiries and examinations as we considered appropriate.

Our report on the financial position of the companies as at April 30, 1966 and the results of their operations for the year ended on that date is set out on page 10 of the preceding year except for the following:

TOUCHE, ROSS, BAILEY & SMART,
Chartered Accountants.

THE INTERNATIONAL HELIUM COMPANY LIMITED

AND ITS WHOLLY OWNED SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

FOR THE YEAR ENDED APRIL 30, 1966

Expressed in Canadian Dollars

INCOME

Oil and gas sales		\$ 495,657
Lease operating expenses		
Production expenses	\$ 200,903	
Royalties	33,767	
Interest on bank production loans	141,006	
	<u>375,676</u>	
General overhead expenses	74,725	450,401
Income from production before the undernoted charges		<u>45,256</u>
Depreciation and depletion	260,792	
Amortization of long term loan costs	<u>10,688</u>	
		<u>271,480</u>
Net loss for the year		<u><u>\$ 226,224</u></u>

DEFICIT

Balance May 1, 1965		\$1,400,558
Add:		
Leases abandoned	\$ 879,689	
Cost of dry holes	170,767	
Organization expenses	15,368	
Net loss for the year	<u>226,224</u>	
		<u>1,292,048</u>
		2,692,606
Deduct:		
Accumulated net income from oil and gas production transferred from deferred development expenses		<u>102,241</u>
Balance April 30, 1966		<u><u>\$2,590,365</u></u>

THE INTERNATIONAL HELIUM COMPANY LIMITED
AND ITS WHOLLY OWNED SUBSIDIARY COMPANIES

**CONSOLIDATED STATEMENT OF DEFERRED
DEVELOPMENT AND OTHER EXPENDITURES**

FOR THE YEAR ENDED APRIL 30, 1966

Expressed in Canadian Dollars

Balance May 1, 1965		\$ 844,841
Accumulated net income from oil production transferred to deficit account		102,241
		<hr/> 947,082
Development costs on dry hole written-off		145,231
		<hr/> 801,851
Expenditures during the year		
Development		
Geological reports and consulting fees	\$ 50,185	
Lease rentals	16,812	
Depreciation and depletion	15,096	
Production expense	7,673	
Well development	44,096	
Engineering costs	54,491	
		<hr/> \$ 188,353
Other		
Salaries	4,383	
Professional services	13,044	
Travelling	30,594	
Administration	40,035	
Printing and advertising	7,925	
Transfer agent and listing fees	8,708	
Interest and other financial expenses	18,450	
Debenture interest	44,397	
Amortization of debenture discount	7,900	
Amortization of debenture financing expenses	12,369	
		<hr/> 187,805
		<hr/> 376,158
Deduct oil and gas sales		13,432
		<hr/> 362,726
Balance April 30, 1966		<u><u>\$1,164,577</u></u>

THE INTERNATIONAL HELIUM COMPANY LIMITED
AND ITS WHOLLY OWNED SUBSIDIARY COMPANIES

**EXPLANATORY NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

APRIL 30, 1966

1. PRINCIPLES OF CONSOLIDATION AND ACCOUNTING

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary companies, International Helium, Inc. and Nevada Oil & Helium Co. The accounts of the partially owned subsidiary company, Apache Oil and Helium Corporation are not included in the consolidation for the reason indicated in note 2.

Oil and gas production of The International Helium Company Limited in Canada and International Helium, Inc. in the United States is reflected in the consolidated statement of income. The helium activities of The International Helium Company Limited and the oil and gas activities of Nevada Oil & Helium Co. are still in the development stages and are reflected in the consolidated statement of deferred development and other expenditures.

In previous years both the oil and helium activities of The International Helium Company Limited were considered to be in the exploratory and development stage and the related costs less revenues were capitalized. It has now been decided to reflect the oil operations in the statement of income. The excess of accumulated revenues over expenses for prior years (\$102,241) has been transferred from the deferred development account to the credit of the deficit account.

The accounts of the American subsidiaries, International Helium Inc. and Nevada Oil & Helium Co. have been converted to Canadian dollars at the rate of \$1.08 Canadian for each United States dollar.

2. INVESTMENT IN APACHE OIL AND HELIUM CORPORATION

The investment in shares of Apache Oil and Helium Corporation was acquired from Coast Exploration Company in 1963 on issuance of 1,000,000 shares of the capital stock of The International Helium Company Limited to which a value of \$1.00 per share was attributed. Coast has undertaken to deliver not less than 51% of the total issued capital stock of Apache. The total authorized and issued capital stock of Apache is 1,000,000 shares of \$1.00 par value each, which were issued to acquire a 25% net profit interest in helium leases.

Coast Exploration Company has delivered 478,200 shares of Apache and is committed to deliver any remaining shares owing after settlement of litigation in which Apache is presently involved. As part of this litigation Apache is disputing the interpretation of the net profit agreement and to date has recorded no income accruing therefrom in its books. For this reason the accounts of Apache Oil and Helium Corporation have not been included in the attached consolidated financial statements.

3. BANK PRODUCTION LOANS

All of the producing oil and gas properties of the Company and its subsidiaries are pledged to secure bank production loans having unpaid balances of \$1,258,197 at April 30, 1966. It is estimated that approximately \$255,000 will be payable within the next year.

The demand loan secured by the properties in Alberta is being retired out of 75% of production proceeds after paying therefrom the interest costs on the loan.

The loan secured by properties in Texas, Louisiana and Arkansas held by International Helium, Inc., is subject to the following minimum repayment expressed in U.S. dollars:

June 30, 1967	\$ 149,374
June 30, 1968	130,000
June 30, 1969	120,000
June 30, 1970	120,000
June 30, 1971	135,000
June 30, 1972	132,868
	<hr/>
	<u>\$ 787,242</u>

4. 6% SINKING FUND DEBENTURES DUE OCTOBER 1, 1975

The debentures are secured by a floating charge on all the assets of the Company, are subject to redemption at par value, and may be called before maturity.

Under the terms of the trust indenture the Company is required to establish a sinking fund equal to 5% of the original outstanding aggregate principal amount of the debentures on or before October 1 in each of the years 1969 and 1970, and 10% of the outstanding aggregate principal amount of the debentures, on or before October 1 in each of the years 1971 to 1974 inclusive.

5. CAPITAL STOCK

The following shares were issued during the year:

<u>Consideration</u>	<u>Number of Shares</u>	<u>Value</u>
For assets (oil and gas properties)	125,000	\$ 156,250
For cash	267,950	238,938
	<u>392,950</u>	<u>\$ 395,188</u>

Of the shares issued for cash, 128,000 shares, to which a value of \$.50 each was attributed, were issued under the terms of an agreement dated July 14, 1965 wherein the Company agreed to offer the holders of its shares rights to subscribe for debentures of the Company carrying a bonus of shares. One-third of the bonus shares so offered are represented by these shares.

Under the terms of an agreement dated August 13, 1965, the Company agreed to issue 40,000 shares, to which a value of \$.50 each was attributed, as additional consideration for short term borrowing. These shares are also included with the shares issued for cash.

6. CONTRIBUTED SURPLUS

Contributed surplus represents 256,000 donated shares, to which a value of \$.50 each was attributed, distributed in accordance with the terms of the rights offering referred to in note 5. Two-thirds of the bonus shares so offered are represented by these shares.

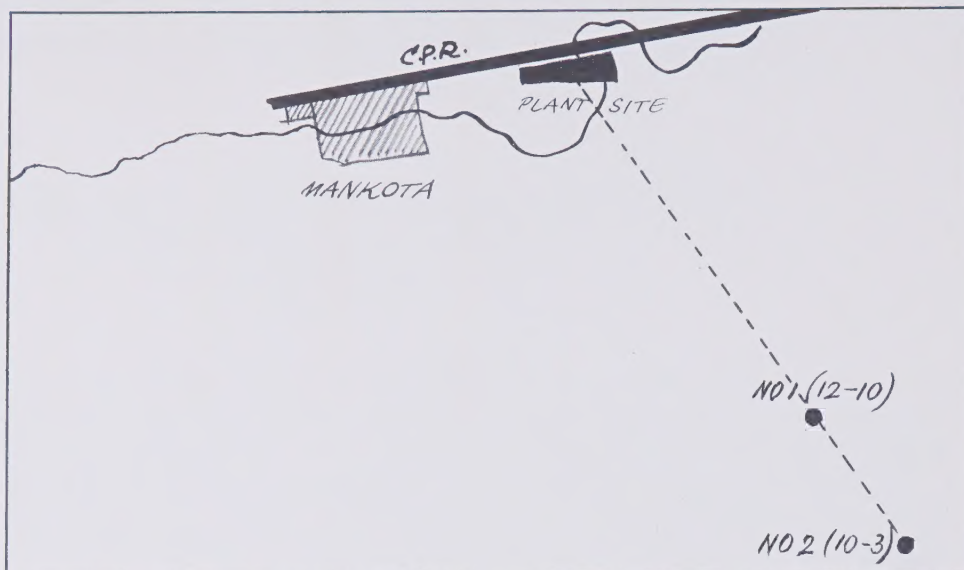
7. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, The International Helium Company Limited issued 3,282,418 shares from the Company's treasury as the full purchase price for acquisition by The International Helium Company Limited of sulphur interests in Mexico comprising (1) a 34% interest in a Mexican exploration corporation Azufres Anahuac, S.A.; and (2) an assignment of an option to purchase proven sulphur reserves and other sulphur properties in the Mexican Sulphur Reserve, which calls for the incorporation of a further Mexican company, proposed to be called Operadora Anahuac, S.A., in which the Company will hold a 34% interest. The company has exercised its rights under the aforementioned option and expenditures of approximately U.S. \$1,000,000 have been incurred on behalf of the Company.

Gairloch Investments Limited has exercised an option to acquire all of the issued shares of the Company previously owned by Coast Exploration Company.

THE INTERNATIONAL HELIUM COMPANY LIMITED

Location
of the
Company's
helium properties
in Saskatchewan



Helium

HELIUM — Chemical symbol: He

An inert gas, colourless, odourless and non-toxic, helium will not burn and has a density about one-seventh of that of air.

Traditionally, helium is associated with balloons, blimps and dirigibles. Because of its completely non-flammable nature, it is still preferred as a lifting gas in place of the less costly, but dangerously explosive, hydrogen.

Among present-day applications, helium is used as a shield in high-quality arc welding of many metals such as aluminum, copper, titanium and magnesium. It plays a key role in the development of guided missiles and space exploration vehicles, in gas-cooled atomic reactors, in leak detection in high-pressure and high-vacuum systems and in medical and scientific research.

Helium has also provided the stimulus in the field of cryogenics, the science and technology of the super cold.

The discovery of helium in southwest Saskatchewan is the only significant discovery in the western world outside the United States. With the soaring demand in the U.S., coupled with the fact that the United States considers helium a strategic material, it is not unreasonable to expect Saskatchewan to become the main source of helium for Canada and the free world.

**THE INTERNATIONAL HELIUM
COMPANY LIMITED**

Suite 1010, 11 King Street West,
Toronto 1, Ontario